

Pasture and Hay Rents

Michael Duffy

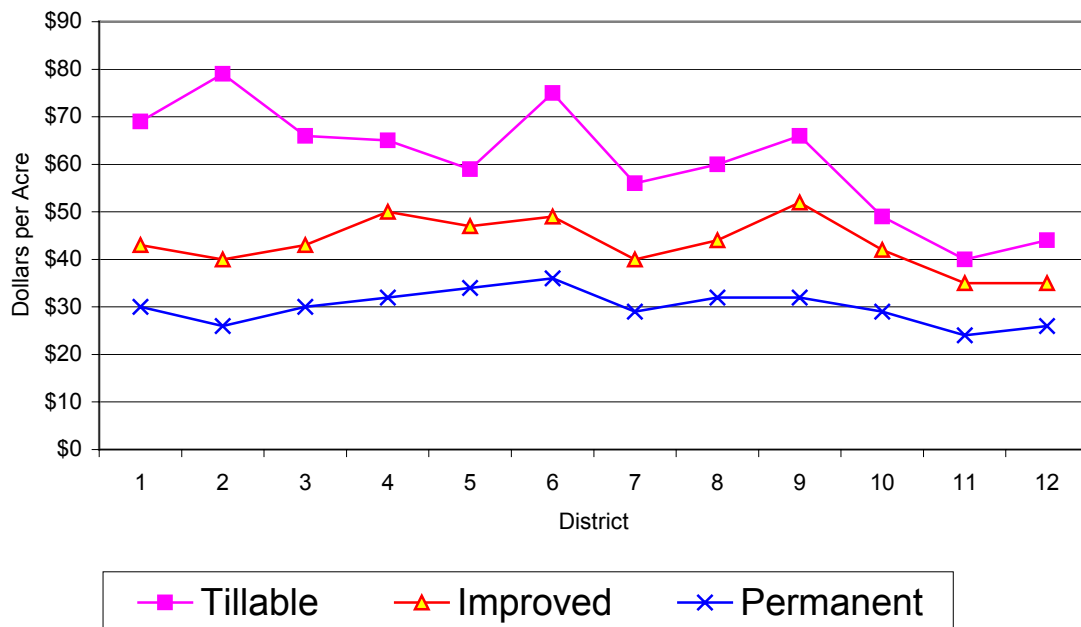
Associate Director, Leopold Center for Sustainable Agriculture
ISU Extension Economist

Good morning. I appreciate the opportunity to be with you and take part in this meeting. In my opinion, there will be an ever-increasing role for forages and grassland in Iowa's agricultural future. I think the resurgence of interest in grass-fed beef, the increasing realization of the environmental benefits from longer rotations, and the expanding opportunities for energy crops all point to a heightened awareness of the potential for forages and grassland.

I was asked to talk about pasture rents and leases today. In preparing for this talk, I decided to address two related areas. First, I would like to discuss the current pasture rents and values. Second, I would like to briefly touch on what should be considered when evaluating rents and leases.

The Iowa State University (ISU) Extension Service does an annual rental rate survey. Pasture rents are reported for tillable, improved and permanent pasture. Figure 1 shows the 2002 rents for the three categories of pasture in 12 Iowa districts; the ISU Extension farm management districts. The districts roughly correspond to the U.S. Department of Agriculture (USDA) Crop Reporting Districts, going from west to east across the state and north to south in three tiers. For example, District 1 in Figure 1 is Northwest Iowa and District 12 is Southeast.

Figure 1: Average 2002 Pasture Rents in Iowa



Notice in Figure 1 that there is a greater difference by district for tillable pasture rents than for the improved or permanent pasture. Figure 2 shows the relative rents. This figure illustrates the relatively constant differences between improved and unimproved pasture, as well as the wide variation between the tillable and the improved pasture. Notice that in the areas with the most pastureland and the highest demand for pasture, the improved pasture and tillable pasture are the closest in value. For example, in southern Iowa improved pasture is more than 80 percent of the value, while in northwestern and north central Iowa the values are less than 70 percent.

Figure 2: Relative Iowa Pasture Rents, 2002

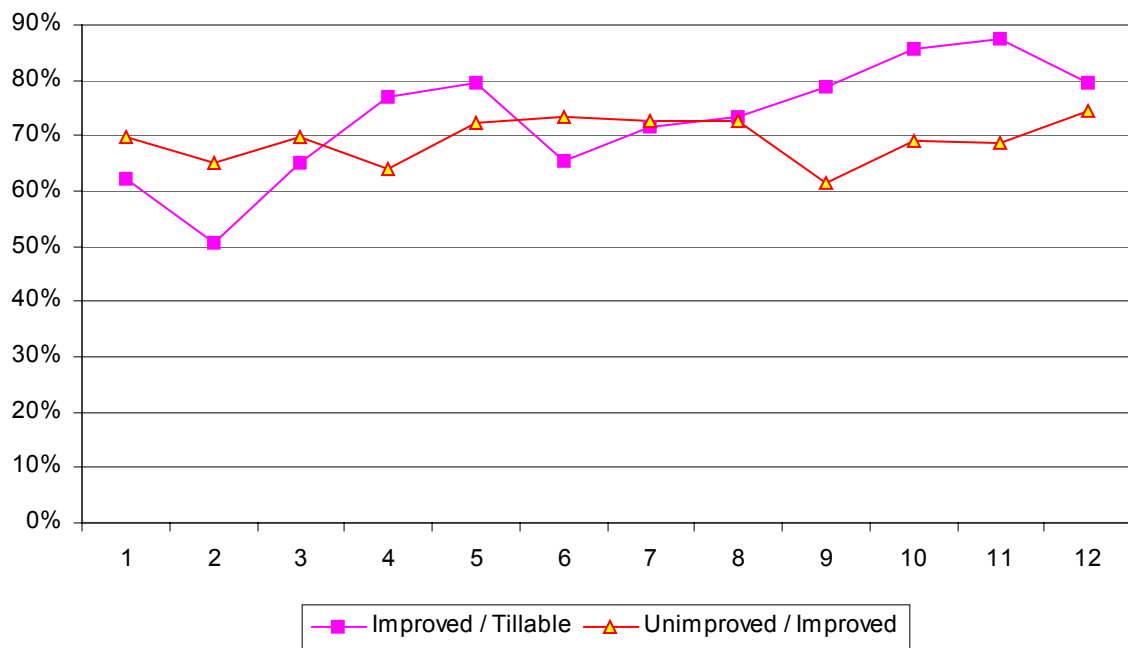


Figure 3 shows the average pasture rent in Iowa as reported by the USDA. Notice that in 1994 the way of computing the survey was changed. That year estimates were made under both the old and the new surveys with the new survey figures being almost one-quarter lower than the old. If we apply the same percentage difference to the previous year's pasture rent estimates, we see that rents have been trending upward, nearly doubling from 1987 through 1998. The average pasture rent has been falling in recent years, dropping almost 13 percent since the peak in 1998.

Figure 3: Average Pasture Rent in Iowa

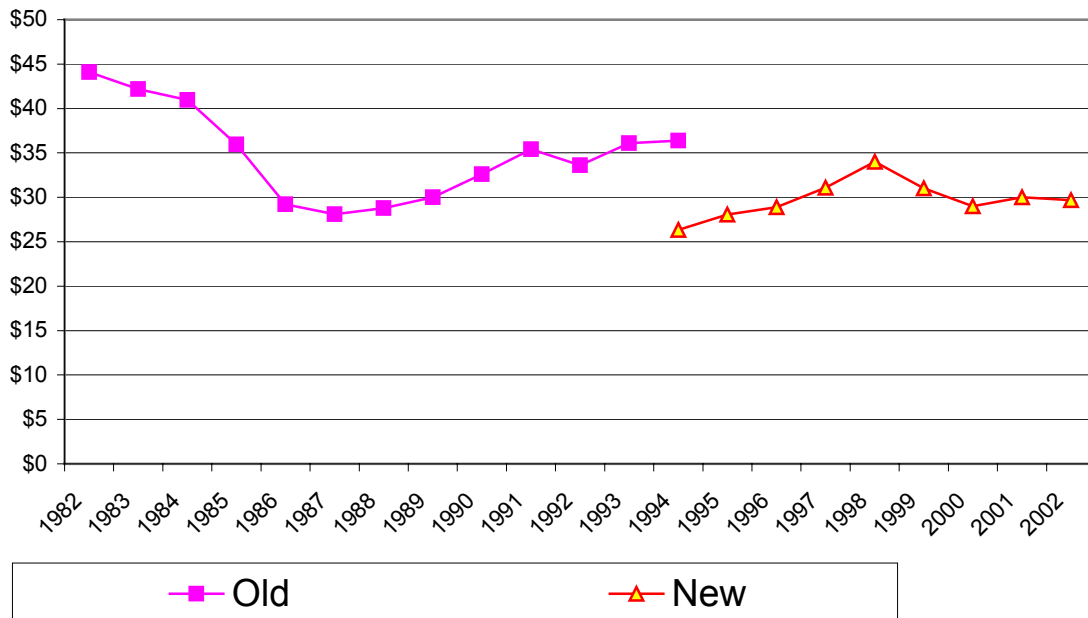


Figure 4 plots the estimated rents and low-quality land values. The estimated rents are from the USDA. The values prior to 1994 were adjusted by the difference between the new and old survey in 1994. The land values are those obtained in the annual ISU land value survey.

Notice in Figure 4 that the values and rents follow very similar paths. There have been some deviations, especially in the last three or four years. These deviations could be due to the increase in non-agricultural demand for low-quality farmland.

Figure 5 shows the consistency in the relationship between rents and values. Except for a time in the mid-1980s, rents have been approximately 2 percent of low-quality land values. Notice the trend line shows that this percentage is decreasing over time.

Figure 4: Average Pasture Rent and Low Quality Land Values In Iowa

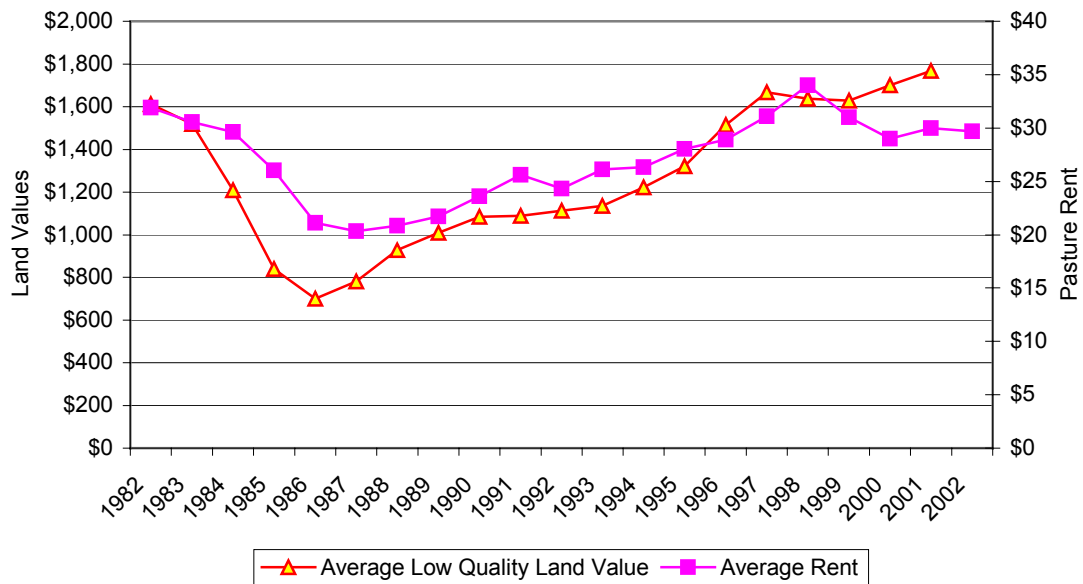
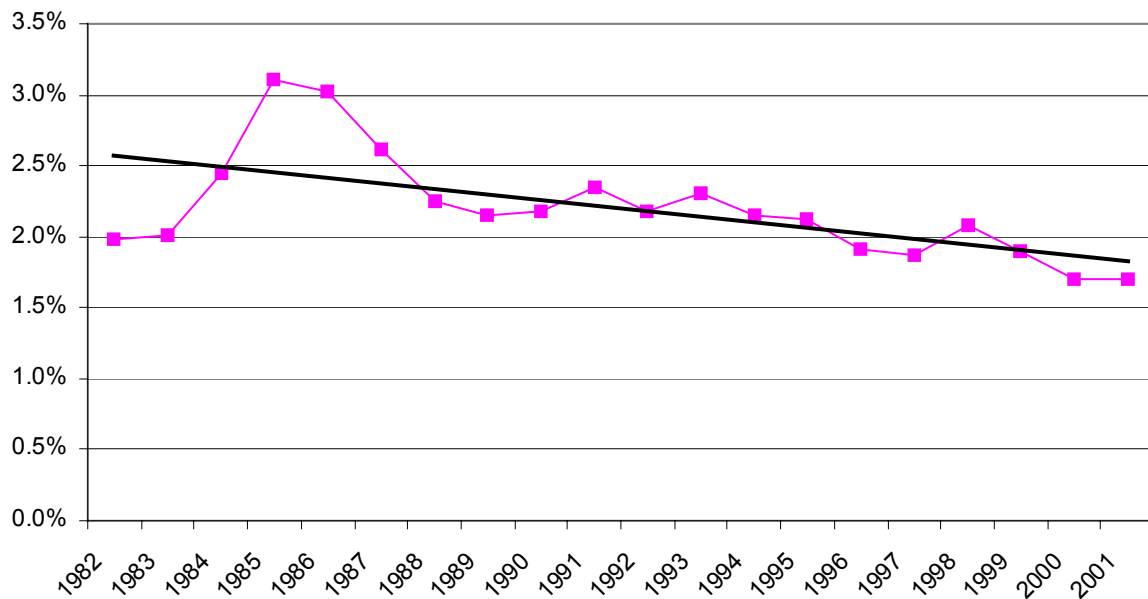
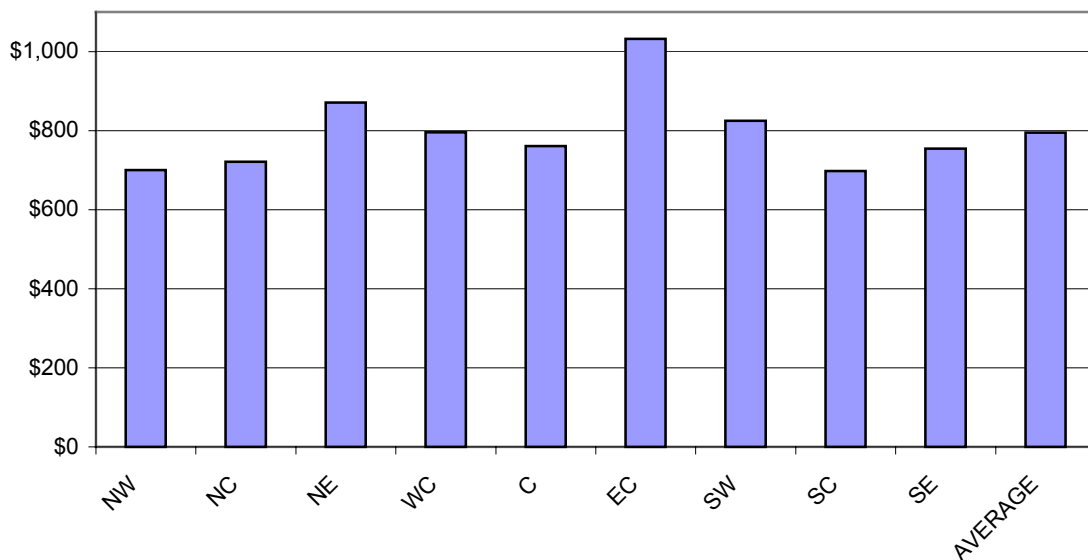


Figure 5: Iowa Pasture Rent as a Percent of Low Quality Land Values



Finally, current, non-tillable pasture values show the range of diversity across the state. Figure 6 displays data from the Iowa Chapter of the Realtors Land Institute. This figure shows that non-tillable pasture averaged approximately \$800 per acre in September 2002. The per acre values ranged from \$698 in south central Iowa to \$1,032 in east central Iowa.

Figure 6: Average Value Non-Tillable Pasture, Sept. 2002



Average pasture rents in Iowa vary among regions of the state but not as much as would be expected. The greatest variation was found for tillable pasture.

The average pasture rent and low-quality land values track very closely. Rents average about 2 percent of the value for low-quality land. The difference between the rent and values has been growing over the past few years. It is hard to know for sure why this is occurring but the increase in non-agricultural demand for low-quality land is certainly a factor. Based on the ISU survey, low-quality land value is the highest it has ever been, surpassing even the 1981 peak.

Rent to value is one way to estimate pasture rent. There are, however, many other ways. The ISU Extension publication, Estimating Cash Rental Rates

for Farmland, Ext. Pub. FM-1801, discusses some of the various methods that can be used to calculate rent for hay and pastureland.

One method is to look at the value of the forage. You can estimate the expected pasture or hay production and then multiply by 25 percent of the grass hay price during the grazing season or 30 percent of the hay price for an established stand. These percentages can be adjusted based on the relative contribution of the tenant. For example, if the tenant supplies seed or fertilizer, then the percentage should be increased. Be sure to use the price that corresponds to the type and quality of the stand.

Another approach is to use per animal unit month (AUM). You can multiply the price of hay during the grazing season by the pasture quality factor. The pasture quality factor depends upon the type of stand. (See FM – 1801 for examples of some factors.) If you take this result times the number of animal units, you can derive a monthly rental value for all the acres.

Finally, you also can take the rate per AUM times the carrying capacity of the pasture in AUMs per acre. This provides an estimated pasture rental rate per acre for the whole growing season.

Estimating rent for pasture is not as easy or straightforward as renting cropland. There are many factors that have to be considered. The quality of the stand is of utmost importance in determining rent. However, access to water and quality of fencing are both important factors that must be established beforehand.

The local supply and demand situation will play a big part in determining pasture rental rates. Figure 7 shows the value of the non-tillable pasture as a percent of the low- quality land by crop reporting districts. You can see that pastureland is a higher percentage of the value in the northeastern and southern Iowa areas where there is a greater demand for pastureland.

It is important that producers carefully consider how much they can realistically afford for pasture rent. It also is important for producers to shop around as much as possible for the best pasture value.

Figure 7: Non-Tillable Pasture Land Values as a Percent of Low Quality Land, September, 2002

